

Message Text

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ACTION EUR-12

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FM AMEMBASSY PARIS
TO DEPARTMENT OF TREASURY IMMEDIATE
SECSTATE WASHDC IMMEDIATE 6535

C O N F I D E N T I A L PARIS 05404

FOR STATE: PASS EUR/EB AND FEDERAL RESERVE

E. O. 11652: GDS
TAGS: EFIN, FR
SUBJECT: PARIS FOREX MARKET

1. GENERAL WEAKNESS OF DOLLAR TODAY IN FOREX MARKETS
DID NOT CAUSE MUCH REACTION IN TERMS OF FRENCH FRANC,
WHICH CLOSED AT 4.8225 AFTER A DAY OF QUIET TRADING.
MOST ACTION IN THE FOREX MARKET WAS IN DOLLAR/D-MARK
AND DOLLAR/SWISS FRANC WITH THE DOLLAR RECOVERING
MARGINALLY FROM ITS OPENING LOWS.

2. EUROFRANC RATES CONTINUED TO DECLINE, POSSIBLY
INDICATING SOME CLOSINGS OF POSITIONS. SUISSE VERSEMENT
RATE PREMIUM STILL ABOUT 4 PERCENT ABOVE SPOT FRENCH
FRANC/SWISS FRANC RATE. GOLD PRICES STICKY IN MID
ONE HUNDRED EIGHTIES WITH NO INCREASE IN USUAL
DIFFERENTIAL BETWEEN PARIS AND LONDON GOLD MARKETS.
SOME PARIS GOLD DEALERS EXPECT PARIS GOLD PRICE AT
200 DOLLARS BEFORE ELECTIONS WITH WORLD PRICES
FOLLOWING THE SAME PATH DURING NEXT SIX MONTHS.
SAME DEALERS BELIEVE THAT GOLD MARKET WOULD BE
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NATIONALIZED IF LEFT WINS ELECTIONS AND ARE SEEKING
INVESTMENTS IN GOLD FIRMS ABROAD. THUS, USUAL
INDICATORS OF CONFIDENCE IN FRANCS SUGGEST THAT
POTENTIALLY LARGE OUTFLOWS ASSOCIATED WITH FLOW
OF INTERNATIONAL TRANSACTIONS NOT ACTIVE BUT THAT
INDIVIDUAL TRANSACTIONS, REFLECTED IN GOLD AND
SUISSE VERSEMENT RATE REMAIN SOMEWHAT LARGER THAN

USUAL BUT NOT YET OF REALLY SIGNIFICANT VOLUME.

3. MOST PARIS FOREX DEALERS EXPECT MORE OR LESS
NORMAL VOLUME IN FRANCS UNTIL THE FIRST ROUND OF THE
ELECTIONS UNLESS SOMETHING INDICATES A PROBABLE
VICTORY BY THE LEFT IN THE MEANTIME. THEY ARE ALSO
WONDERING WHAT STEPS THE AUTHORITIES MIGHT TAKE
DURING THE WEEK BETWEEN THE FIRST AND SECOND ROUND
OF THE ELECTIONS IF THE LEFT LOOKS LIKE A WINNER
AFTER THE FIRST ROUND. MOST FOREX TRADERS THINK
THAT A TWO TIER MARKET IS STILL THE MOST LIKELY
DEVELOPMENT SUPPLEMENTED BY A VERY TIGHT SQUEEZE
ON FORWARD TRADING AND FRANC CREDIT RELATED TO
INTERNATIONAL TRANSACTIONS. MOST OF THEM DOUBT
THAT THE BANK OF FRANCE WOULD WISH TO RISK RUNNING
DOWN PRACTICALLY ALL OF ITS RESERVES SIMPLY TO
HOLD A RATE FOR FIVE DAYS BETWEEN ELECTIONS.
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